

12-20-2016

Southwest Minnesota Economic and Business Conditions Report - Third Quarter 2016

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Recommended Citation

Banaian, King and MacDonald, Richard A., "Southwest Minnesota Economic and Business Conditions Report - Third Quarter 2016" (2016). *Southwest Minnesota Economic and Business Conditions Report*. 11.
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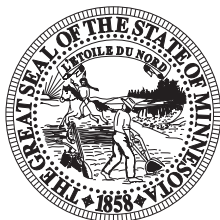
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Southwest Minnesota Economic and Business Conditions Report Third Quarter 2016

This issue is part of a series for the six planning areas of Minnesota –
Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities.

The Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.



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Executive Summary

Normal economic growth in Southwest Minnesota is expected over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI).

Two of four LEI components were positive in the third quarter. An increase in new filings of incorporation and LLC and a jump in Mankato residential building permits made favorable contributions to the LEI this quarter. An increase in initial jobless claims and weakness in the rural outlook weighed on the index. After rising 1.27 points in the second quarter, the Southwest Minnesota LEI was essentially flat in the current quarter. The index is also largely unchanged over the past twelve months.

There were 544 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the third quarter of 2016 — representing 5 percent more new filings than one year earlier. There were 40 new regional business incorporation filings in the third quarter, a 17.6 percent increase over last year's third quarter. New LLC filings in Southwest Minnesota declined by 1.2 percent—decreasing to 317 in the third quarter of 2016. New assumed names totaled 163 in the third quarter—23.5 percent more filings than in September 2015. There were 24 new filings for Southwest Minnesota non-profit in the third quarter—seven fewer than one year earlier.

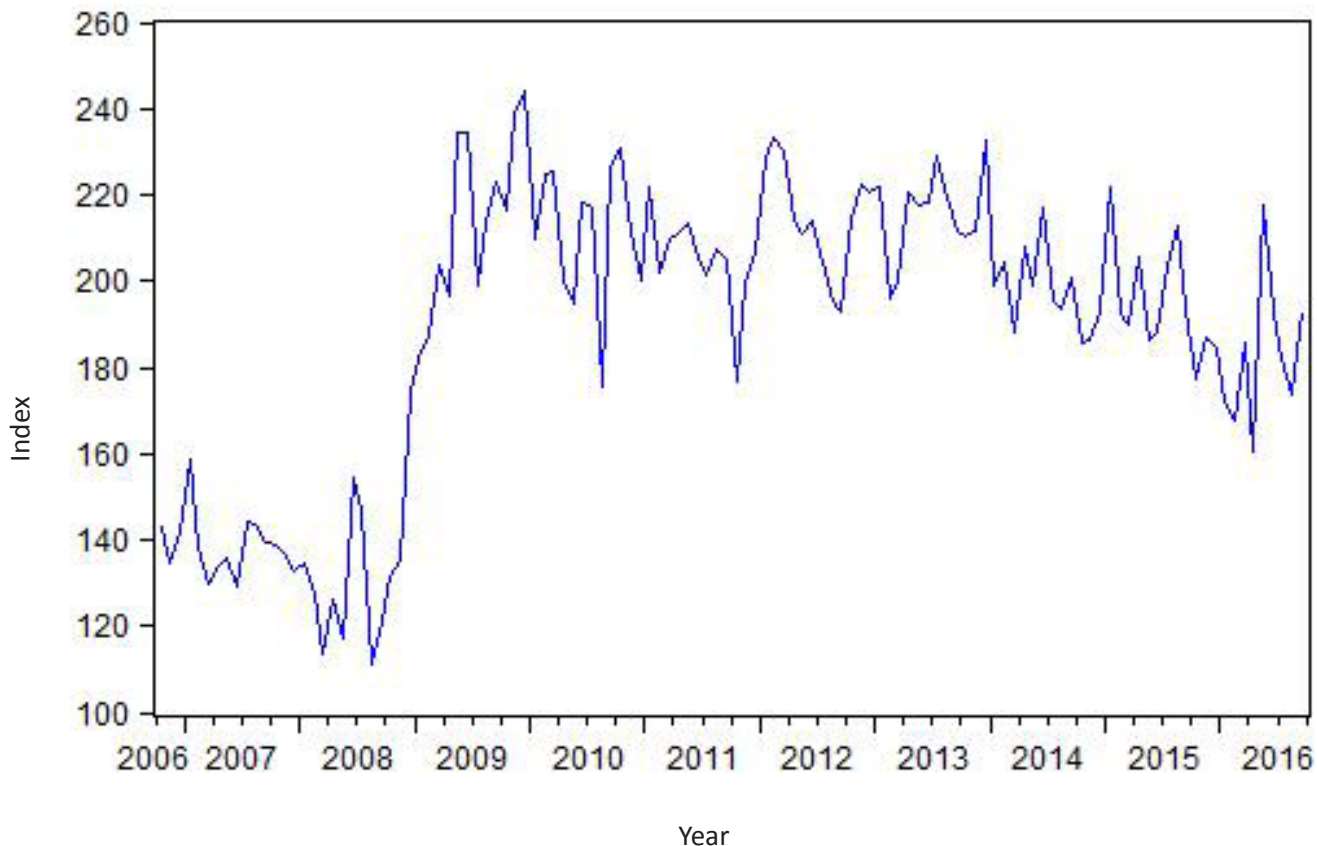
Employment of Southwest Minnesota residents declined by 2.9 percent over the year ending September 2016. 6,157 fewer Southwest Minnesota residents have jobs than did one year earlier. The regional unemployment rate was 3.3 percent in September, an increase from a 3 percent reading in September 2015. Three hundred fewer initial claims for unemployment insurance were reported compared to year-ago levels in September—a 21.2 percent decrease. The Southwest Minnesota labor force contracted by 5,746 (a 2.6 percent decrease) over the year ending September 2016. There were 78.52 job vacancies per 100 people unemployed in the most recent quarter. Southwest Minnesota bankruptcies have begun to rise in Southwest Minnesota.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was mixed in the most recent quarter. On the positive side, average hourly earnings rose, employment increased, initial jobless claims fell, and the relative cost of living declined. This was offset by a decline in the length of the workweek, a smaller labor force, a larger unemployment rate, fewer new business filings, and a drop in the value of residential building permits.

Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI rose by 0.03 points in the third quarter and is now 0.3 percent below its level in September 2015. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable since the end of the Great Recession but had slowly drifted downward since the end of 2013. This trend appears to have been reversed in recent quarters.

SCSU Southwest Minnesota Leading Economic Indicators Index (December 1999=100)



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2016	Contribution to LEI, 2nd quarter 2016
Rural Mainstreet Index	-4.04	-0.43
Southwest Minnesota initial claims for unemployment insurance	-3.48	2.81
Southwest Minnesota new filings of incorporation and LLCs	2.54	-0.68
Mankato MSA single-family building permits	5.01	-0.43
TOTAL CHANGE	0.03	1.27

The Southwest Minnesota LEI has four components, two of which increased in the third quarter. A rise in new business filings for incorporation and LLC and an increase in Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits helped lift the index. Higher initial jobless claims earlier in the year weighed on this quarter's index. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. This index also had an unfavorable impact on the LEI in the most recent quarter.

SCSU Southwest Minnesota Leading Economic Indicators Index

	2016	2015	Percentage Change
Rural Mainstreet Index, Creighton University September	39.0	49.2	-20.7%
Southwest Minnesota initial claims for unemployment insurance September	1,113	1,413	-21.2%
Southwest Minnesota new filings of incorporation and LLCs Third Quarter	357	355	0.6%
Mankato MSA single-family building permits September	19	3	533.3%
Southwest Minnesota Leading Economic Indicators Index September (September 1999 = 100)	192.7	193.3	-0.3%

Southwest Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 5 percent from year earlier levels in the third quarter. This series has now begun to rise again after declining throughout much of 2015. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier is related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota (although less so in the southwest region).

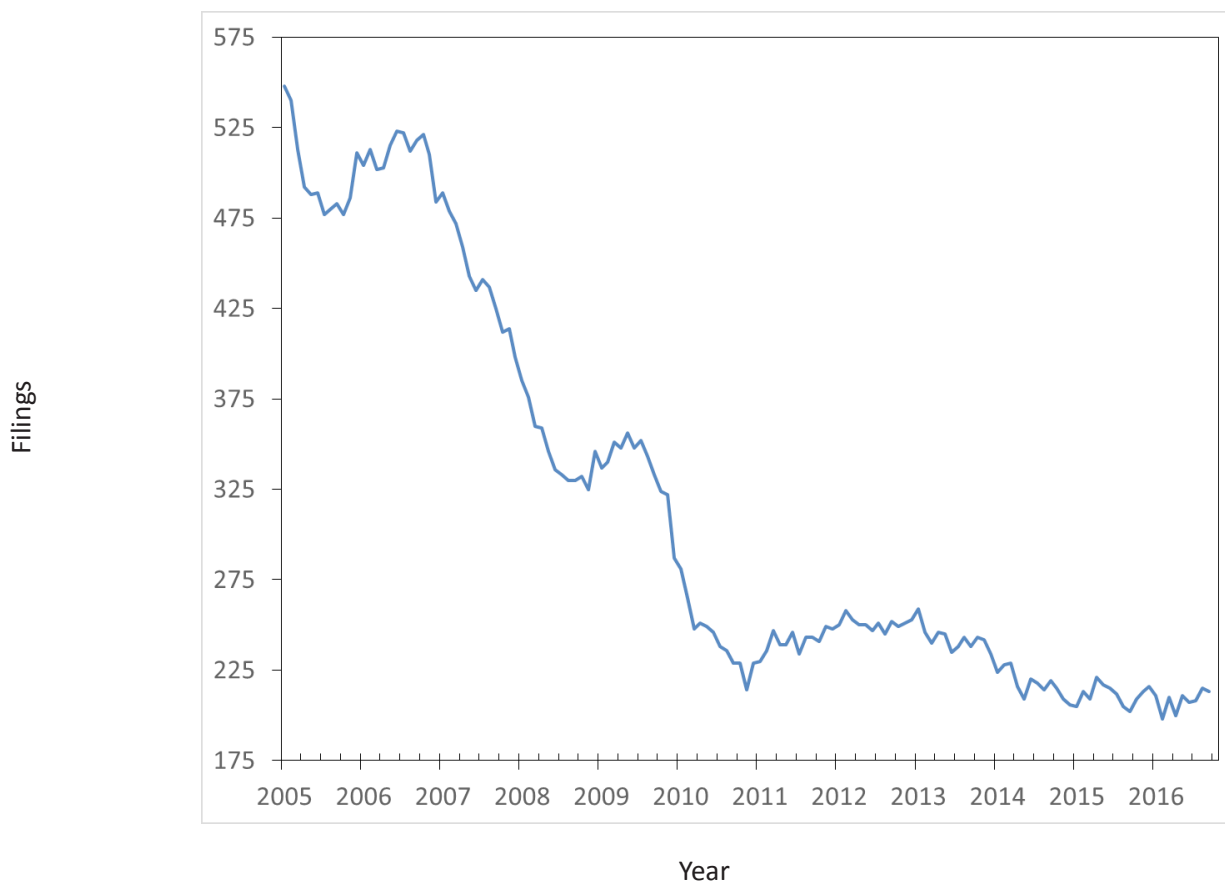
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Southwest Minnesota Total New Business Filings	518	550	665	697	544	5%

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed until flattening out over the past several quarters. Third quarter 2016 new regional incorporations increased by 17.6 percent compared to the same quarter in 2015.

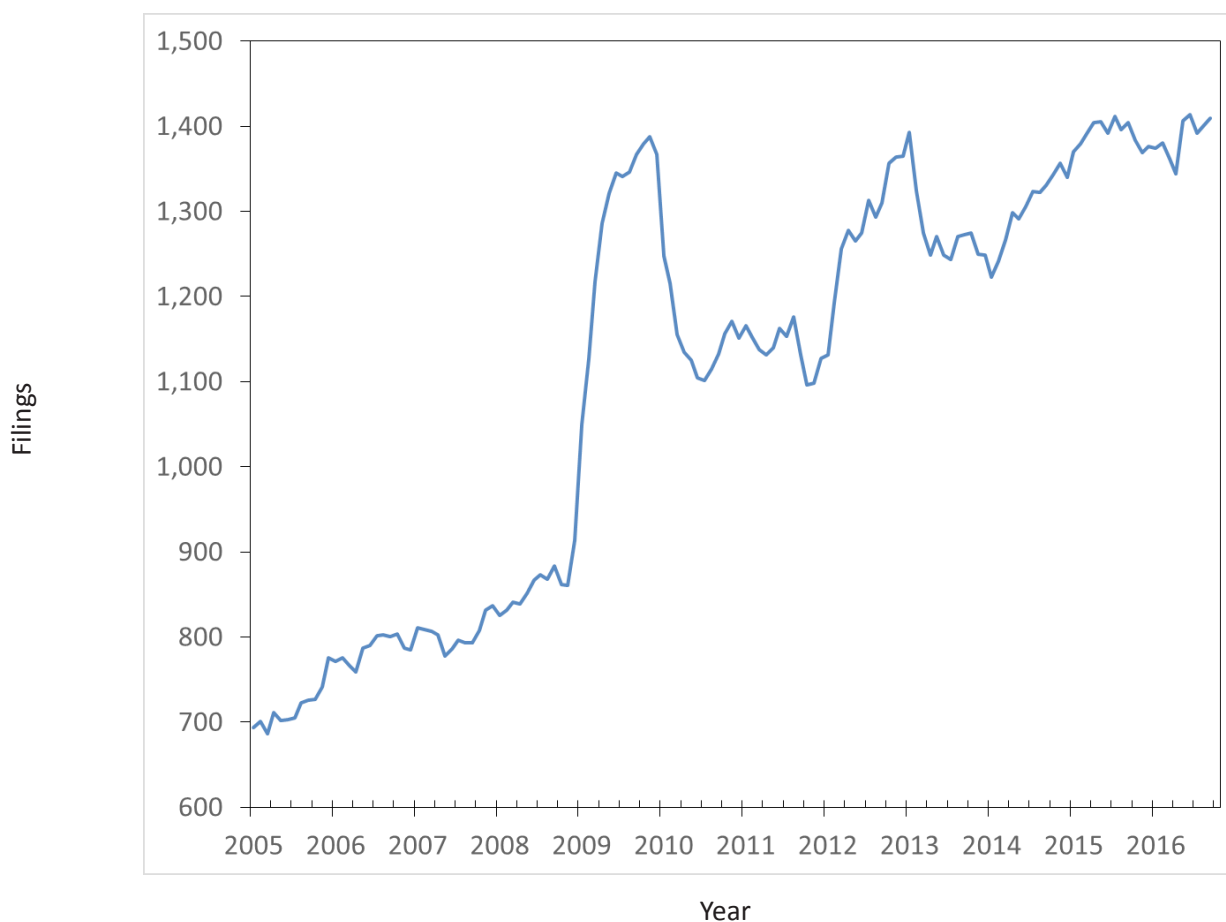
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Southwest Minnesota New Business Incorporations	34	61	56	56	40	17.6%

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there was a considerable upward trend in LLCs in Southwest Minnesota until the past few quarters. New LLC filings fell 1.2 percent compared to one year earlier in the most recent quarter.

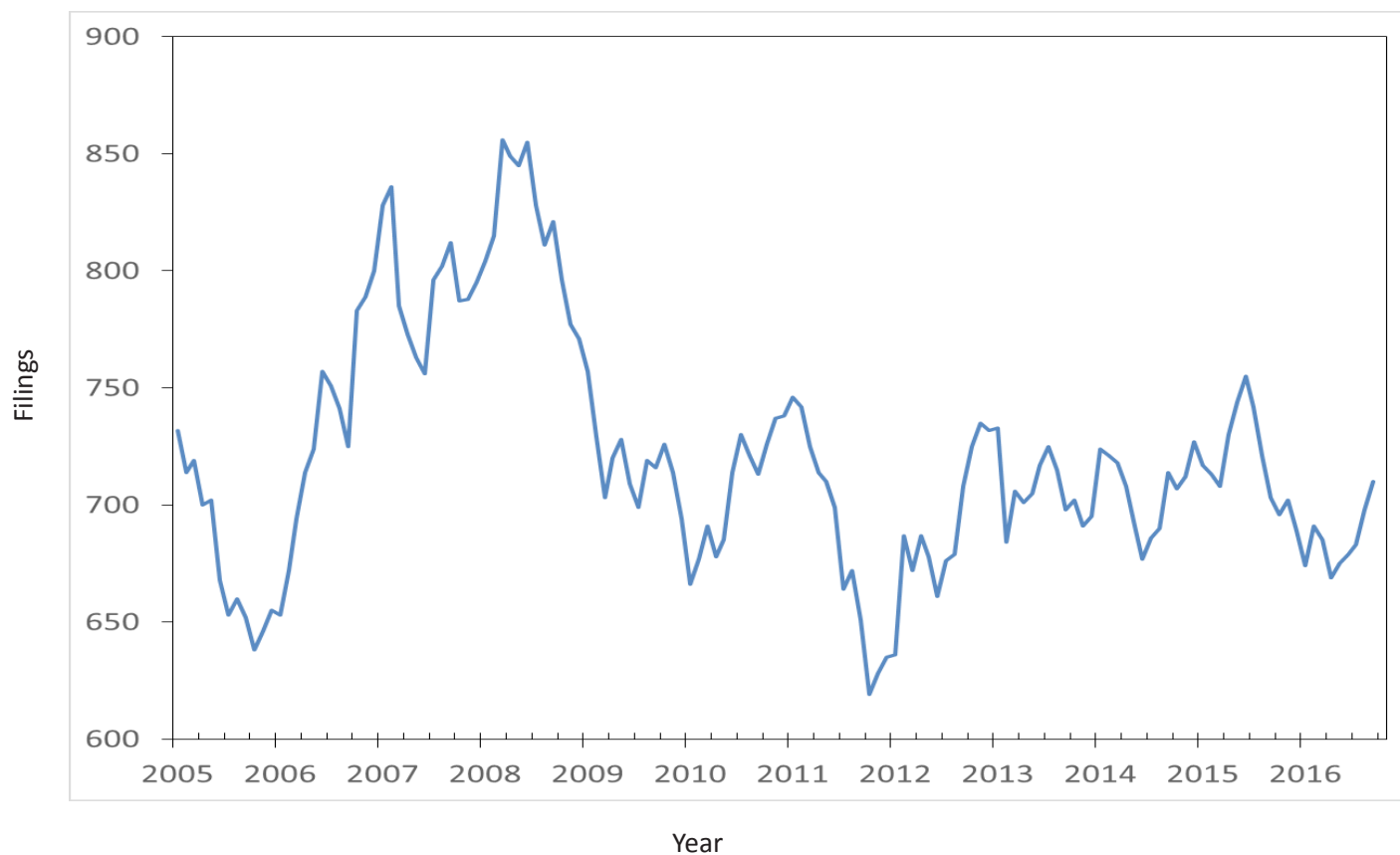
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	321	291	391	411	317	-1.2%

Third quarter assumed names surged (rising 23.5%) compared to the same period in 2015. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

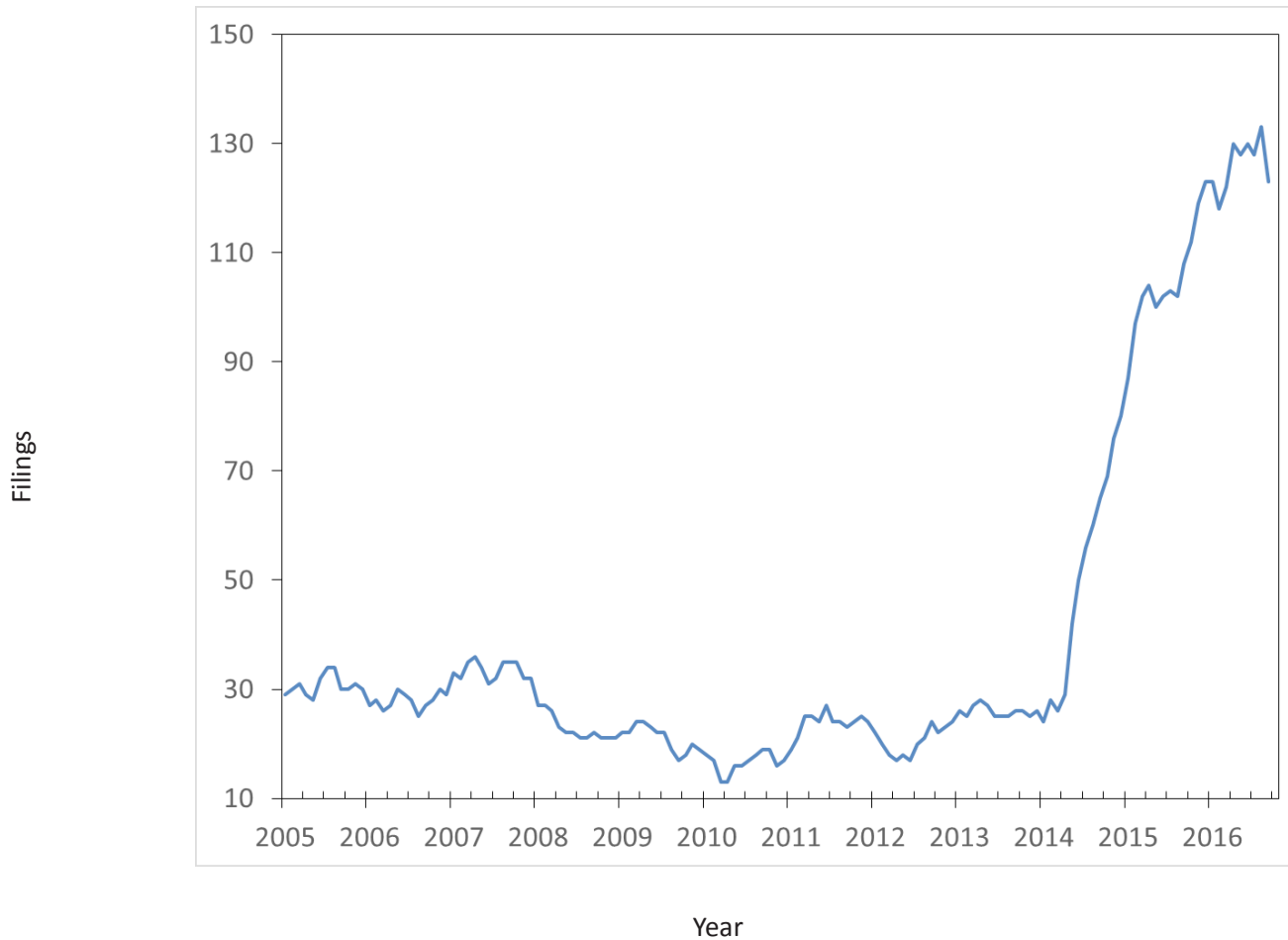
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Southwest Minnesota New Assumed Names	132	163	190	194	163	23.5%

There were 24 newly registered non-profits in the third quarter. This is seven fewer than one year ago. As can be seen in the graph below, the non-profits series has increased considerably since the beginning of 2014.

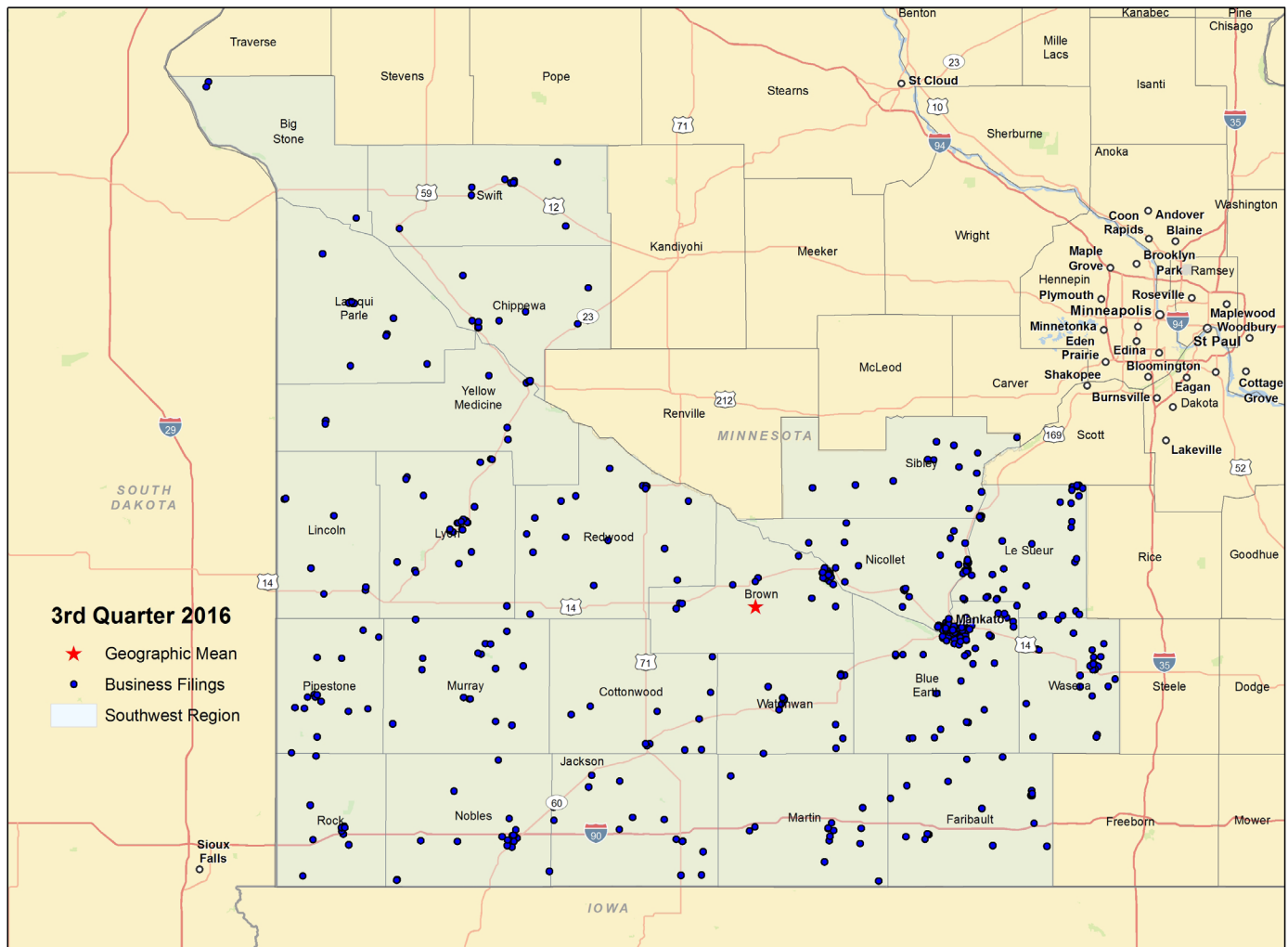
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Southwest Minnesota New Non-Profits	31	35	28	36	24	-22.6%

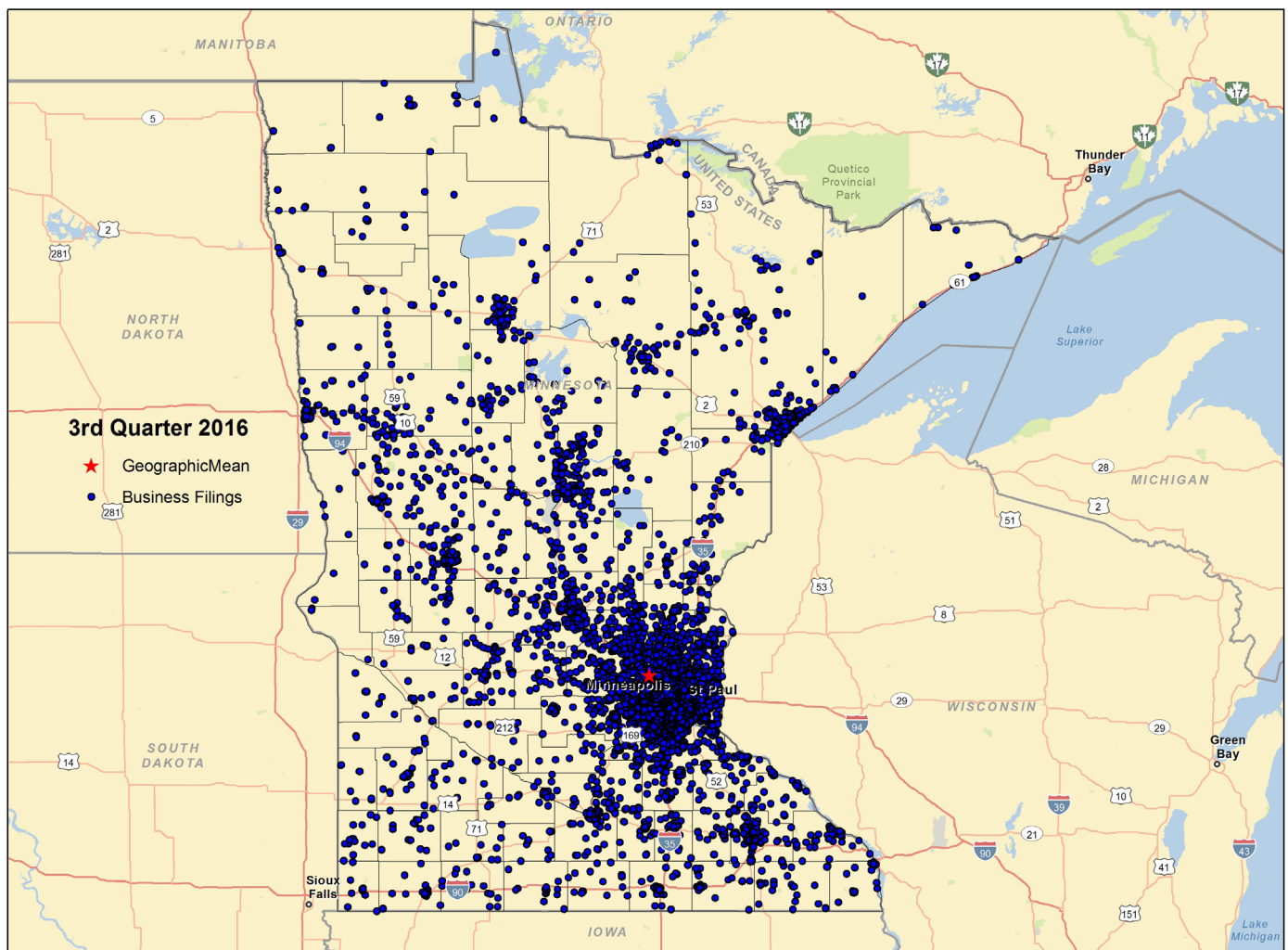
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the second quarter of 2016. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New Ulm, St Peter, and several cities along I-90. As has been noted in previous editions of this report, well-traveled roadways are a predictor of new business formation in Southwest Minnesota.

Southwest Minnesota Planning Area--New Business Formation--Quarter 3: 2016



The second map shows new business filings for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. The map demonstrates the importance of cities and roadways in encouraging economic development. St. Cloud now appears to be integrated into the Twin Cities metro as the I-94/US-10 corridor continues to be a magnet for new business formation.

Minnesota--New Business Formation--Quarter 3: 2016

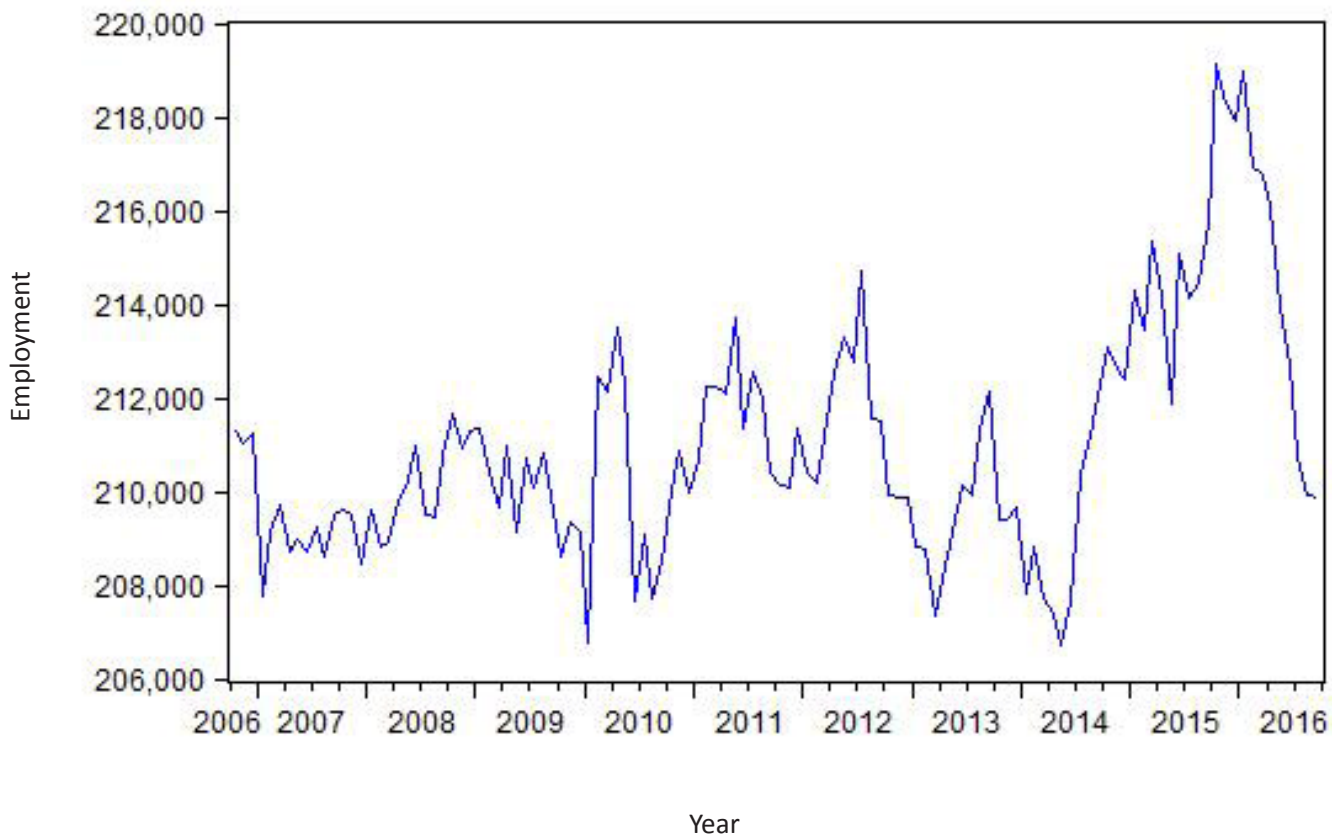


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area fell by 2.9 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average trended upward from the middle of 2014 until the end of 2015, but has declined precipitously in the last three quarters. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in September 2016 (see accompanying table) was 208,011 a decrease of 6,157 over the prior year.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted.

Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Employment (Not seasonally adjusted)	214,168	215,616	215,263	214,503	210,995	209,219	208,011

The seasonally adjusted unemployment rate in Southwest Minnesota appears to have bottomed out in 2015 and has started to inch up in recent quarters. Both the seasonally and non-seasonally adjusted unemployment rates rose in the third quarter. The non-seasonally adjusted measure now stands at 3.3 percent — an increase from the 3 percent rate recorded in September 2015.

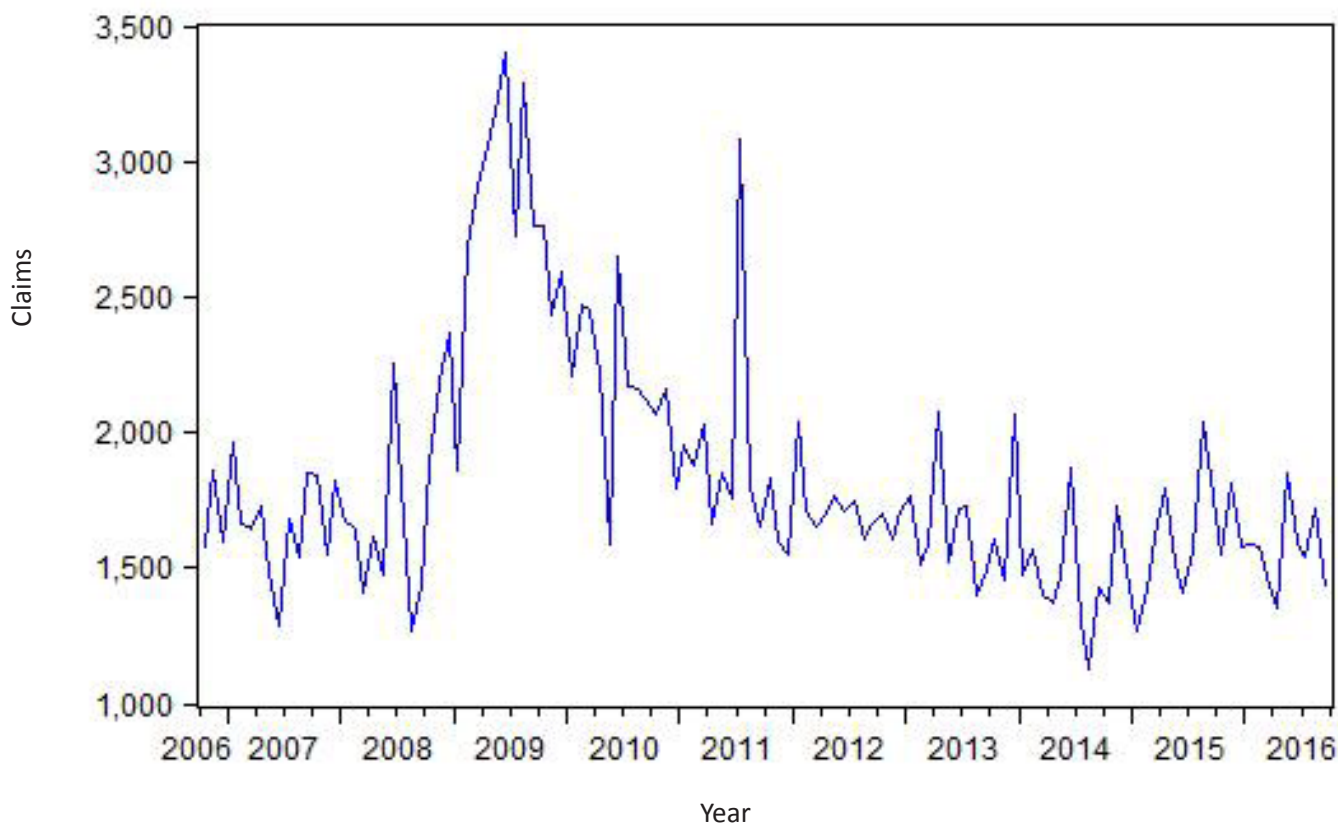
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Unemployment rate (not seasonally adjusted)	3.0%	3.8%	3.4%	4.1%	4.0%	3.7%	3.3%

New claims for unemployment insurance in September 2016 were 21.2 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series drifted upward in 2015 but has levelled out in recent quarters.

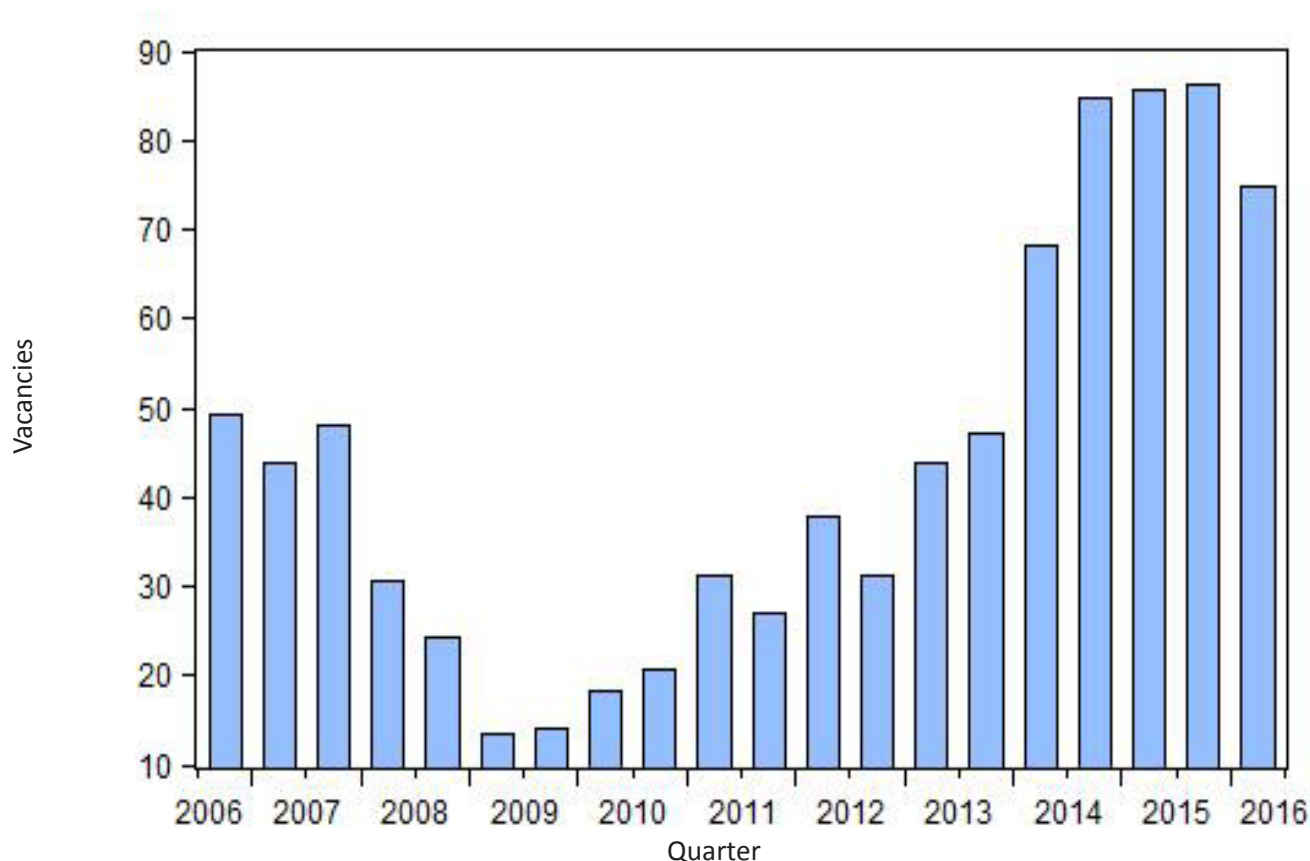
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Southwest Minnesota Planning Area



Period	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Initial claims (Not seasonally adjusted)	1,413	982	1,636	1,382	1,060	1,077	1,113

The number of job vacancies per 100 unemployed was lower in the second quarter of 2016 (this is the most recently available data). However, the job vacancy rate remains elevated in Southwest Minnesota (and throughout the state). This job vacancy rate is now several times higher than it was at its low point during the Great Recession.

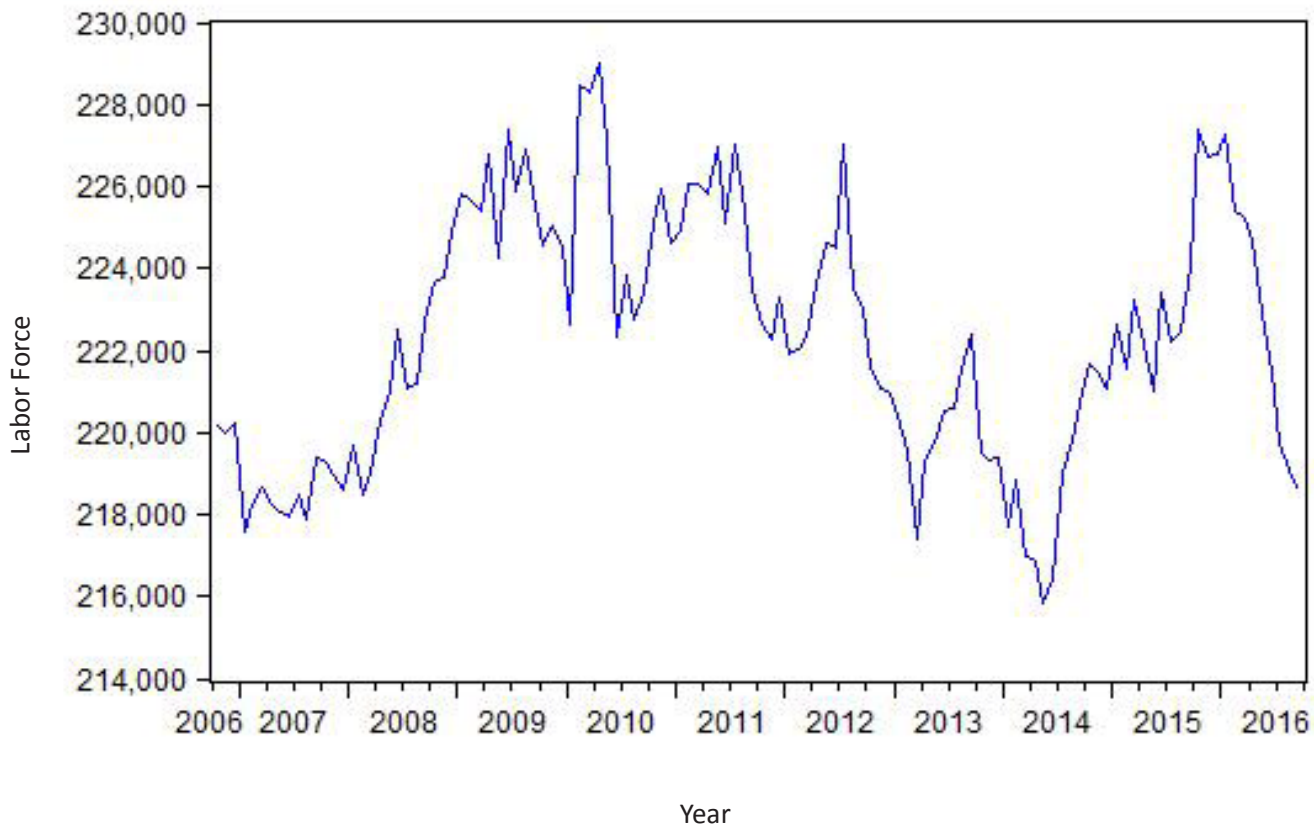
Job Vacancies per 100 Unemployed--Southwest Minnesota Planning Area



Quarter	2013:IV	2014:II	2014:IV	2015:II	2015:IV	2016:II
Job Vacancies per 100 Unemployed	55.49	73.58	97.46	89.44	96.43	78.52

The Southwest Minnesota labor force contracted by 5,746—a 2.6 percent annual decrease—over the year ending September 2016. As can be seen in the accompanying figure, the planning area's labor force had trended upward since the middle months of 2014, but has declined in 2016.

Labor Force—Southwest Minnesota Planning Area (12-month moving average)

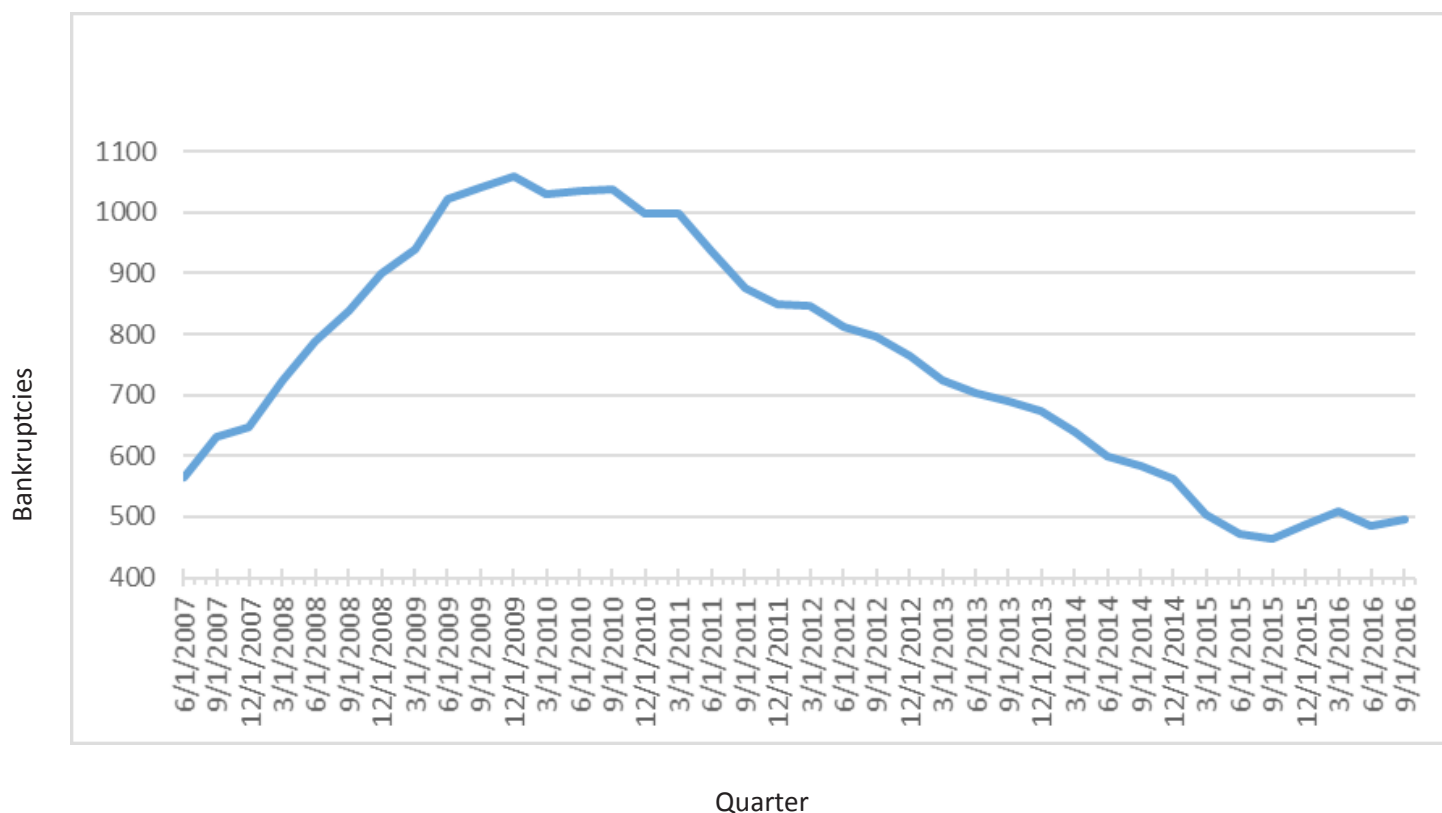


Year (September)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	220,158	219,658	219,099	217,510	220,820	215,074

Southwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southwest Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased until the end of 2009, and steadily declined until the fourth quarter of last year. With 495 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota has started to inch up from its historically low level.

Southwest Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	875	796	691	584	463	495

Economic Indicators

Mankato-North Mankato MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	September 2016 (m)	56,362	56,071	0.5% ↑	0.8%
Goods-Producing Employment	September 2016 (m)	9,971	10,073	-1.0% ↓	-0.7%
Average Weekly Work Hours - Private Sector	September 2016 (m)	31.5	32.3	-2.5% ↓	32.7 (since 2008)
Average Earnings Per Hour - Private Sector	September 2016 (m)	\$23.68	\$21.95	7.9% ↑	0.5% (since 2008)
Unemployment Rate	September 2016 (m)	2.8%	2.5%	NA ↑	3.7%
Labor Force	September 2016 (m)	57,867	58,906	-1.8% ↓	0.8%
Initial Jobless Claims	September 2016 (m)	178	269	-33.8% ↓	NA
Business Formation					
Total New Business Filings	Third Quarter 2016 (q)	149	150	-0.7% ↓	133 (since 2000)
New Business Incorporations	Third Quarter 2016 (q)	10	9	11.1% ↑	18 (since 2000)
New Limited Liability Companies	Third Quarter 2016 (q)	89	97	-8.2% ↓	61 (since 2000)
New Assumed Names	Third Quarter 2016 (q)	46	39	17.9% ↑	47 (since 2000)
New Non-profits	Third Quarter 2016 (q)	4	5	-20.0% ↓	7 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation, in thousands	September 2016 (m)	3,440	16,004	-78.5% ↓	NA
Mankato / North Mankato Cost of Living Index	Second Quarter 2016 (q)	90.2	94.5	-4.6% ↓	NA

(m) represents a monthly series

(q) represents a quarterly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato employment increased over the year ending September 2016. Average hourly earnings rose, initial jobless claims fell, and the relative cost of living declined. However, the length of the workweek fell, the unemployment rate rose, the labor force contracted, new business filings were lower, and the valuation of residential building permits declined.

State and National Indicators

MINNESOTA Indicators	Sep 2016	Jun 2015	Sep 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,905,600	2,891,800	2,859,200	0.5%	1.6%
Average weekly hours worked, private sector	34.1	34.3	33.9	-0.6%	0.6%
Unemployment rate, seasonally adjusted	4.0%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	\$27.33	\$26.64	\$26.00	2.6%	5.1%
Philadelphia Fed Coincident Indicator, MN	181.58	180.56	176.87	0.6%	2.7%
Philadelphia Fed Leading Indicator, MN	1.17	1.91	1.37	-38.7%	-14.6%
Minnesota Business Conditions Index	48.4	51.6	50.8	-6.2%	-4.7%
Price of milk received by farmers (cwt)	\$17.90	\$15.00	\$17.80	19.3%	0.6%
Enplanements, MSP airport, thousands	1,542.9	1,726.5	1,506.7	-10.6%	2.4%
NATIONAL Indicators	Sep 2016	Jun 2015	Sep 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,791	144,172	142,300	0.4%	1.8%
Industrial production, index, SA	104.2	104.2	105.3	0%	-1.0%
Real retail sales, SA (\$)	191,744	190,661	188,489	0.6%	1.7%
Real personal income less transfers (\$, bill.)	11,966.8	11,907.8	11,745.3	0.5%	1.9%
Real personal consumption expenditures (\$, bill.)	11,557.4	11,522.2	11,285.5	0.3%	2.4%
Unemployment rate, SA	5.0%	4.9%	5.1%	NA	NA
New building permits, SA, thousands	20,857	22,634	18,482	-7.9%	12.9%
Standard & Poor's 500 stock price index	2,157.7	2,083.9	1,944.4	3.5%	11%
Oil, price per barrel in Cushing, OK	\$45.18	\$48.76	\$45.48	-7.3%	-0.7%

Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are mixed—current conditions are stronger but the future conditions index declined by 14.6 percent from one year earlier. The Minnesota Business Conditions index also turned negative this quarter. Milk prices are largely unchanged from one year ago, but are 19.3 percent higher than last quarter. Enplanements at the Minneapolis-St. Paul airport increased by 2.4 percent over the last twelve months.

The national economic indicators reported in the table are largely favorable. Over the past twelve months, stock prices rose, building permits are higher, and oil prices have continued to fall. In addition, employment, consumer expenditures, and income all experienced growth and the national unemployment rate fell. Retail sales improved. Only industrial production contracted from year ago levels.

The Southwest Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

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Sources

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Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

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